RAIMOUNT ENERGY INC.

ANNUAL REPORT
2003

COVER: DRILLING RIG ON LOCATION NEAR WOOLFORD, ALBERTA

DIRECTORS' REPORT TO THE SHAREHOLDERS

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL

The Financial Statements for the fiscal year ended October 31, 2003 are submitted herewith. The following table sets forth the comparative 2002 and 2003 line items from the Company's Financial Statements that are referred to in the discussion that follows:

		2002	2003	Change
Cash (Bank Indebtedness)		$ (91,658)	$ 1,157,179	$ 1,248,837
Oil & Gas Sales, Net Royalties and ARTC		867,371	1,383,463	516,092
Accounts Payable and Accrued Liabilities		418,617	1,081,578	662,961
Expenses:	Operating	188,904	178,445	(10,459)
	General and Administrative	329,194	363,808	34,614
Retained Earnings		(3,411,301)	350,957	3,762,258

The Company's cash position has been affected by several factors. First, strong cash flow and the private placement financing conducted in the fourth quarter of 2003 have had a positive impact on the Company's cash position. Second, Cash includes approximately $365,000 of cash calls received from joint venture partners towards the drilling program undertaken prior to year-end.

The increase in Oil and Gas Sales was due entirely to higher commodity prices. While the Company's production averaged 851 Mcfe/d in 2002 compared to 719 Mcfe/d in 2003, it received an average of $3.25 per Mcfe in 2002 compared to $5.63 per Mcfe in 2003. Operating Expenses remained essentially unchanged while General and Administrative Expenses increased marginally.

At the Company's Special and Annual Meeting of Shareholders held on March 31, 2003, the shareholders approved a reduction to the stated capital of the Company and a corresponding reduction in the deficit account carried forward from previous mining operations. The 2003 Retained Earnings account more accurately reflects the Company's current focus on oil and gas operations.

OPERATIONS

Production from the Company's two (1.0 net) wells at Garrington, Alberta has been trouble-free and is showing normal levels of decline. For this reason, the Company is focusing its exploration activities in other areas of southern Alberta with a view to offset the decline and, if possible, increase production in the future.

Over the past two years, the Company and its joint venture partners (the "Parties") have acquired mineral leases to over 13,000 acres of land near Woolford, Alberta (the "Woolford property"). Two wells were drilled on the Woolford property in the fourth quarter of the fiscal year. The first well encountered serious drilling problems and was abandoned before reaching total depth. The second well was cased and will be tested in the spring of 2004. Additionally, the Parties have acquired a suspended well located on the Woolford property which had previously tested natural gas and will be retested in the future. If the results of these tests prove positive and further drilling is warranted, then a drilling program will be developed and conducted toward the end of fiscal 2004. The Company owns a 50% working interest in the Woolford property.

The Company continues to maintain in good standing its mining interests and related properties in British Columbia (see Appendix A). With the price of silver and copper improving in recent months, management is of the view that its mining properties may attract interest from the mining sector in the future. In order to facilitate a potential transaction, the Company plans to transfer its mining properties into a wholly-owned subsidiary.

ON BEHALF OF THE BOARD

Gregory A. Vavra
President

APPENDIX "A"

Attached to and Forming a Part of The Directors' Report to Shareholders
Dated this 8th Day of March, 2004

RAIMOUNT ENERGY INC.
SUMMARY OF MINING INTERESTS

The Company holds the following properties in good standing:

1. The Prosperity-Silverado silver properties located near Stewart, B.C. are comprised primarily of Crown Grant Claims. During the period from 1929-1931, the Prosperity workings located on the east side of Mt. Rainey (Prosperity workings) produced about 30,000 tons of hand sorted ore grading 77 oz./ton silver (2,310,000 oz.). Previously, the Silverado workings on the west side of the mountain (Silverado workings) yielded some 154 tons of hand sorted ore grading 202 oz./ton silver. More recently, during the period 1980-1985, exploratory drilling on the Prosperity workings established drill indicated reserves of about 60,000 tons grading 43 oz./ton silver and inferred reserves of about 90,000 tons grading 17 oz./ton silver. In addition, there are about 6-7,000 feet of unexplored sub-parallel silver-lead-zinc veins between the Prosperity workings and the Silverado workings. A recent study by independent geological consultants estimated that the intervening area could host 550,000 tons of geological reserves grading 35 oz./ton silver.

2. The Glacier Creek properties, comprised of 46 Crown Grant claims, are located about seven kilometers north of Stewart, B.C. and are readily accessible from the highway leading north of the town. Sampling of old workings showed impressive grades of gold and silver over a significant width. A 90 foot length in one tunnel assayed 0.23 oz./ton gold and 2.7 oz./ton silver over an average two foot width. An adjacent partially exposed zone assayed 0.17 oz./ton gold and 3.4 oz./ton silver over an 8½ foot width.

3. The Company owns a 16 2/3% interest in the Chu Chua Copper properties located near Kamloops, B.C. Work to date has defined mineral reserves of 3,000,000 tons grading 1.67% Cu, 0.31% Zn, 7.41g/T Ag and 10.34 g/T Au. The open pit portion of mineral reserves has been calculated at 1,150,000 tons grading 3% Cu, 0.3% Zn, 10.1g/T Ag and 0.6 g/T Au. Further potential may exist to depth and on strike to the known reserves.

AUDITORS' REPORT

To the Shareholders
Raimount Energy Inc.

We have audited the balance sheets of Raimount Energy Inc. as at October 31, 2003 and 2002 and the statements of income and retained earnings and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Company as at October 31, 2003 and 2002 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

"Collins Barrow Calgary LLP"

CHARTERED ACCOUNTANTS

Calgary, Alberta
January 15, 2004

RAIMOUNT ENERGY INC.
BALANCE SHEETS
OCTOBER 31, 2003 AND 2002

	2003	2002
Assets		
Current assets		
Cash	$ 1,157,179	$ -
Accounts receivable	377,392	341,333
Deposits and prepaids	71,838	68,242
	1,606,409	409,575
Property, plant and equipment (note 3)	804,792	450,652
Land held for development (note 4)	26,300	26,300
Mineral properties and deferred exploration costs (note 5)	1	1
	$ 2,437,502	$ 886,528
Liabilities		
Current liabilities		
Bank indebtedness (note 6)	$ -	$ 91,658
Accounts payable and accrued liabilities	1,081,578	418,617
Income taxes payable	105,885	29,555
	1,187,463	539,830
Future site restoration costs	16,008	8,963
Future income taxes (note 7)	159,468	57,194
	1,362,939	605,987
Shareholders' Equity		
Share capital (note 8)	552,443	3,520,679
Contributed surplus	171,163	171,163
Retained earnings (deficit)	350,957	(3,411,301)
	1,074,563	280,541
	$ 2,437,502	$ 886,528

Approved by the Board,

____________________, Director

____________________, Director

RAIMOUNT ENERGY INC.
STATEMENTS OF INCOME AND RETAINED EARNINGS
YEARS ENDED OCTOBER 31, 2003 AND 2002

		2003	2002
Revenue			
Oil and gas sales, net of royalties		$ 1,290,076	$ 795,240
Alberta royalty tax credit		93,387	72,131
		1,383,463	867,371
Expenses			
Operating		178,445	188,904
General and administrative		363,808	329,194
Interest		1,090	9,982
Depletion, depreciation and amortization		276,880	162,536
Write-down of land held for development (note 4)		-	11,016
Write-down of mineral properties (note 5)		-	199,999
Write-down of deferred exploration costs (note 5)		-	123,212
		820,223	1,024,843
Income (loss) before income taxes		563,240	(157,472)
Income taxes (recovery) (note 7)	- current	105,885	29,555
	- future	106,398	(72,872)
		212,283	(43,317)
Net income (loss)		350,957	(114,155)
Deficit, beginning of year		(3,411,301)	(3,297,146)
		(3,060,344)	(3,411,301)
Deficit eliminated against share capital (note 8[c])		(3,411,301)	-
Retained earnings (deficit), end of year		$ 350,957	$ (3,411,301)
Income (loss) per share	- basic and diluted (note 8[e])	$ 0.30	$ (0.11)

RAIMOUNT ENERGY INC.
STATEMENTS OF CASH FLOWS
YEARS ENDED OCTOBER 31, 2003 AND 2002

	2003	2002
Operating activities		
Net income (loss)	$ 350,957	$ (114,155)
Items not affecting cash		
Depletion, depreciation and amortization	276,880	162,536
Write-down of land held for development	-	11,016
Write-down of mineral properties	-	199,999
Write-down of deferred exploration costs	-	123,212
Future income taxes (recovery)	106,398	(72,872)
	734,235	309,736
Change in non-cash working capital items	80,244	85,874
	814,479	395,610
Financing activities		
Repayments on revolving demand loan, net	(80,000)	(195,000)
Issuance of common shares, net of issue costs	438,941	80,000
	358,941	(115,000)
Investing activities		
Acquisition of property, plant and equipment	(623,975)	(143,621)
Costs on land held for development	-	(1,120)
Deferred exploration costs	-	(3,958)
Change in non-cash working capital items	619,392	(128,866)
	(4,583)	(277,565)
Net increase in cash	1,168,837	3,045
Bank overdraft, beginning of year	(11,658)	(14,703)
Cash (bank overdraft), end of year (note 6)	$ 1,157,179	$ (11,658)
Supplemental disclosure of cash flows information:		
Interest paid	$ 1,090	$ 9,982
Income taxes paid	$ 29,555	$ -

1. **NATURE OF OPERATIONS**

The Company's activities are the exploration for and development of oil and natural gas properties and mining properties in Western Canada.

2. **ACCOUNTING POLICIES**

(a) **OIL AND NATURAL GAS PROPERTIES AND EQUIPMENT**

The Company follows the full cost method of accounting whereby all costs relating to the exploration for and the development of oil and gas reserves are initially capitalized and accumulated in cost centres. Costs capitalized include land acquisition costs, geological and geophysical expenditures, rentals on undeveloped properties, costs of drilling productive and non-productive wells, together with overhead and interest directly related to exploration and development activities, and lease and well equipment. Gains or losses are not recognized upon disposition of oil and natural gas properties unless such a disposition would significantly alter the related cost centre's rate of depletion and depreciation.

Costs capitalized are depleted and depreciated using the unit-of-production method by cost centre based on estimated proven oil and gas reserves as determined by independent engineers. For purposes of the calculation, production and reserves of oil and natural gas are converted to equivalent units based on their relative energy content where one barrel of oil or liquids equals six thousand cubic feet of natural gas.

The cost of significant undeveloped land is excluded from the depletion base until it is determined whether proved reserves are attributable to the properties, or if impairment has occurred.

Estimated future removal and site restoration costs are provided over the life of the proven reserves on a unit-of-production basis. Costs include the cost of production equipment removal and environmental cleanup estimated each year by management based on current regulations, costs, technology and industry standards. The annual charge is included in the provision for depletion and depreciation and the actual restoration expenditures are charged to the accumulated provision account as incurred.

In applying the full cost method, the Company performs a ceiling test which restricts the capitalized costs less accumulated depletion and depreciation for each cost centre from exceeding an amount equal to the estimated undiscounted value of future net revenues from proven oil and gas reserves, based on year-end prices and costs, and after deducting estimated future general and administrative expenses, estimated future removal and site restoration costs, future development costs, financing costs and income taxes.

(b) **AMORTIZATION**

Furniture, fixtures and equipment are amortized using the declining balance method at 30% per annum.

(c) **LAND HELD FOR DEVELOPMENT**

Land held for development is recorded at cost. Costs capitalized to land held for development include all direct costs, carrying costs including interest on debt used to finance project acquisitions, property taxes and land acquisition costs. Administration overhead is not capitalized. Land held for development is written down if it is determined to be impaired.

(d) **MINERAL PROPERTIES AND DEFERRED EXPLORATION COSTS**

The Company follows the practice of deferring all costs related to the acquisition and exploration of existing projects of mineral properties until commencement of commercial operations. Mineral property costs include initial property acquisition costs and all costs required to keep title of the lands until development begins. All other costs, including overhead, are expensed as incurred.

Management periodically reviews the carrying values of mineral properties and deferred exploration costs with internal and external mining professionals. A decision to abandon, reduce or expand activity on a specific project is based upon many factors including general and specific assessments of mineral reserves, anticipated future mineral prices, anticipated costs of developing and operating a producing mine, the expiration date of mineral property leases, and the general likelihood that the Company will continue exploration on the project. The Company does not set a pre-determined holding period for properties with unproven reserves. However, properties which have not demonstrated suitable prospects are evaluated to determine if future exploration is warranted and that carrying values are appropriate.

Upon commencement of commercial operations, mineral properties and deferred costs will be amortized over the estimated economic life of the particular project.

If a mineral property is abandoned or it is determined that its carrying value cannot be supported by future production or sale, the related costs are charged against operations in the year of abandonment or determination of impairment of value. The amounts recorded as mineral properties and deferred exploration costs represent unamortized costs to date and do not necessarily reflect present or future values.

(e) **MEASUREMENT UNCERTAINTY**

The amounts recorded for depletion and depreciation of oil and gas properties, the provision for future removal and site restoration costs and the ceiling test are based on estimated proven reserves, production rates, future oil and natural gas prices and future costs. The valuation of land held for development and mineral properties and deferred costs are based on management's best estimate of the future recoverability of these assets.

By their nature, these estimates are subject to measurement uncertainty and the effect on the financial statements of changes in such estimates in future periods could be significant.

(f) **INCOME TAXES**

Income taxes are accounted for using the liability method of income tax allocation. Under the liability method, income tax assets and liabilities are recorded to recognize future income tax inflows and outflows arising from the settlement or recovery of assets and liabilities at their carrying values. Income tax assets are also recognized for the benefits from tax losses and deductions that cannot be identified with particular assets or liabilities, provided those benefits are more likely than not to be realized. Future income tax assets and liabilities are determined based on the tax laws and rates that are anticipated to apply in the period of realization.

(g) **STOCK-BASED COMPENSATION**

The Company has a stock-based compensation plan as described in note 9.

Effective November 1, 2002, the Company adopted the new recommendations of the Canadian Institute of Chartered Accountants ("CICA") regarding accounting for stock-based compensation. As permitted by the CICA, the Company has applied this change prospectively for new awards granted on or after November 1, 2002 and no restatement for 2002 was required as a result of the adoption of the new recommendations.

Stock options granted to non-employees are accounted for using the fair value method under which compensation expense is recorded based on the estimated fair value of the options at the grant date.

Stock options granted to employees and directors are accounted for using the intrinsic value method, whereby no amount is recorded for stock options that have an exercise price equal to or greater than the fair value of the stock at the date options are granted. However, the pro forma effect of accounting for stock options granted, had the fair value-based method been used, is disclosed in note 9(b) to the financial statements. Any consideration paid by employees on the exercise of stock options will be credited to share capital.

(h) **REVENUE RECOGNITION**

Revenue from the sale of oil and gas is recognized based on volumes delivered to customers at contractual delivery points and rates. The costs associated with the delivery, including operating and maintenance costs, transportation and production-based royalty expenses are recognized in the same period in which the related revenue is earned and recorded.

(i) **JOINT VENTURE ACCOUNTING**

All of the oil and gas exploration and production activities of the Company are conducted jointly with others and, accordingly, these financial statements reflect only the Company's proportionate interest in such activities.

(j) **DILUTED INCOME PER SHARE**

Diluted income per share is calculated using the treasury stock method, whereby it is assumed that proceeds from the exercise of stock options are used by the Company to repurchase Company shares at the weighted average market price during the year.

3. PROPERTY, PLANT AND EQUIPMENT

	2003			2002		
	Cost	Accumulated Depletion, Depreciation and Amortization	Net Book Value	Cost	Accumulated Depletion, Depreciation and Amortization	Net Book Value
Oil and natural gas properties, including exploration and development thereon	$ 959,683	$ 297,575	$ 662,108	$ 337,243	$ 87,607	$ 249,636
Well and production equipment	249,706	119,277	130,429	248,648	64,560	184,088
Furniture, fixtures and equipment	28,587	16,332	12,255	28,110	11,182	16,928
	$1,237,976	$ 433,184	$ 804,792	$ 614,001	$ 163,349	$ 450,652

General and administrative expenses have not been capitalized.

Unproven properties not subject to depletion amounted to $161,000 at October 31, 2003 (2002 - $NIL).

Future removal and site restoration costs are estimated in aggregate to be $32,800, of which $7,045 (2002 - $8,963) has been charged to earnings in the current year.

4. LAND HELD FOR DEVELOPMENT

Land held for development consists of residential lots near the Company's mining properties. Costs incurred to keep title of lands of $NIL (2002 - $1,120) were capitalized during the year. During the year ended October 31, 2002, the Company wrote down land held for development by $11,016 to estimated net realizable value.

5. MINERAL PROPERTIES AND DEFERRED EXPLORATION COSTS

	2003	2002
Mineral properties		
Balance, beginning of year	$ 1	$ 200,000
Write-down	-	(199,999)
Balance, end of year	1	1
Deferred exploration costs		
Balance, beginning of year	-	119,254
Additions	-	3,958
Write-down	-	(123,212)
Balance, end of year	-	-
	$ 1	$ 1

6. **BANK INDEBTEDNESS**

	2003	2002
Bank overdraft	$ -	$ 11,658
Revolving demand loan	-	80,000
	$ -	$ 91,658

The revolving demand loan is available to a maximum of $373,000. Interest is payable monthly at prime plus 1% per annum. The loan is secured by a general security agreement constituting a first ranking security interest in all personal property and first ranking floating charge in all real property of the Company, and a personal guarantee from a shareholder, officer and director in the amount of $500,000.

7. **INCOME TAXES**

(a) The components of the future income tax liability at October 31, 2003 and 2002 are as follows:

	2003	2002
Land held for development	$ (2,246)	$ (4,640)
Property and equipment	179,487	83,874
Future site restoration	(5,071)	(3,775)
Share issue costs	(3,068)	-
Cumulative eligible capital	(9,634)	(10,331)
Attributed royalty income deductible against future Alberta taxable income	-	(7,934)
	$ 159,468	$ 57,194

(b) Income taxes (recovery) differs from that which would be expected from applying the combined effective Canadian federal and provincial income tax rates of 41.00% (2002 - 42.12%) to income (loss) before income taxes as follows:

	2003	2002
Expected income taxes (recovery)	$ 230,929	$ (66,327)
Royalties, net of tax credits	106,546	91,710
Resource allowance	(102,327)	(53,738)
Provincial tax deduction	(13,075)	(19,707)
Tax rate reductions	(11,821)	(1,503)
Other	2,031	6,248
Income taxes (recovery)	$ 212,283	$ (43,317)

8. **SHARE CAPITAL**

(a) **AUTHORIZED**

Unlimited number of voting common shares

(b) **ISSUED**

	2003		2002	
	Number	**Stated Value**	**Number**	**Stated Value**
Balance, beginning of year	1,084,067	$ 3,520,679	1,004,067	$ 3,440,679
Elimination of deficit against share capital (note 8[c])	-	(3,411,301)	-	-
Stock options exercised	100,000	44,000	80,000	80,000
Pursuant to a private placement (note 8[d])	675,000	405,000	-	-
	1,859,067	558,378	1,084,067	3,520,679
Less: Share issuance costs, net of tax benefit of $4,124		5,935		-
Balance, end of year		$ 552,443		$ 3,520,679

(c) On March 31, 2003, at the Special and Annual Meeting of Shareholders, the shareholders approved the reduction of the stated capital of the Company by the amount of the deficit as at October 31, 2002 of $3,411,301, in accordance with Subsection 38(1) of the Canada Business Corporations Act.

(d) During the year ended October 31, 2003, the Company issued 675,000 shares at $0.60 per share for aggregate proceeds of $405,000 under a private placement.

(e) **INCOME (LOSS) PER SHARE**

Income (loss) per share is calculated based on the basic weighted-average number of common shares outstanding during the year of 1,151,105 (2002 - 1,064,560). An additional 22,934 (2002 - NIL) common shares were added to the denominator in calculating diluted income per share for the dilutive effect of stock options outstanding.

9. **STOCK-BASED COMPENSATION**

(a) The Company has a stock option plan under which directors, officers, employees and consultants of the Company are eligible to receive stock options. The aggregate number of shares to be issued upon the exercise of all options granted under the plan shall not exceed 10% of the issued shares of the Company at the time of granting the options. The maximum number of common shares optioned to any one optionee shall not exceed 5% of outstanding common shares of the Company. Options granted under the plan generally have a term of five years but may not exceed five years and vest at terms to be determined by the directors at the time of grant. The exercise price of each option shall be determined by the directors at the time of grant but shall not be less than the price permitted by the policy or policies of the stock exchange(s) on which the Company's common shares are then listed.

A summary of the status of the Company's stock option plan as at October 31, 2003 and 2002 and changes during the years ending on those dates is as follows:

	2003		**2002**	
	Number of Options	**Weighted-Average Exercise Price**	**Number of Options**	**Weighted-Average Exercise Price**
Outstanding, beginning of year	100,000	$ 0.44	80,000	$ 1.00
Granted	132,500	0.62	100,000	0.44
Exercised	(100,000)	0.44	(80,000)	1.00
Outstanding and exercisable, end of year	132,500	$ 0.62	100,000	$ 0.44

All options outstanding on October 31, 2003 expire October 10, 2008.

(b) On a pro forma basis, had compensation costs for the stock options granted been recorded based on the fair value method, the effect on the following items would have been as follows:

Compensation costs		$	26,500
Net income	As reported	$	350,957
	Pro forma	$	324,457
Income per share			
- basic and dilutive	As reported	$	0.30
	Pro forma	$	0.28

The fair value of the stock options on the date of grant was estimated to be $26,500 using the Black-Scholes option pricing model with the following assumptions:

Expected life (years)	1
Risk-free interest rate (%)	2.69
Expected volatility (%)	82

Upon the exercise of the options, the Company will receive an aggregate of $82,150 cash.

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